

Minutes
Commonwealth Competition Council
Wednesday, October 4, 2006, 10 a.m.
General Assembly Building,
3 East Conference Room
Richmond

Members present:

Senator Emmett W. Hanger, Jr., Chairman
Beverly B. Davis
Lana Ingram Digges
Barry R. Green
Edgardo Marquez, Vice Chairman
Marian M. Pegram
Delegate Thomas Davis Rust
Sara Redding Wilson

Members absent:

Senator J. Brandon Bell, II
Kim Y. Farrar
Delegate Timothy D. Hugo
Roger E. Ortega, Sr.
Ronald V. Shickle
David A. Von Moll
David M. Zobel

Notice of the meeting appeared on the Commonwealth Calendar on the Internet. A quorum was present.

Senator Hanger presided over the meeting and extended a welcome to all present. A warm welcome was given Peggy Robertson upon her return, and the Chairman expressed the appreciation of the Council to the Department of Planning and Budget, especially Richard D. Brown, Director, K. Michael Shook, Associate Director for Best Management Practices, and Lillian E. Peters, Policy Analyst, for their support to the Council this past year during Ms. Robertson's absence.

The following appointments to the Council were reported:

Speaker of the House of Delegates	Delegate Timothy D. Hugo, representing the 40 th Senatorial District, to fill the seat vacated by the retirement of Delegate Allen L. Louderbck
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Governor of Virginia	Kim Y. Farrar, Deputy Secretary of Administration, to fill the seat vacated by Sandra D. Bowen, Secretary of Administration of the Warner administration
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Marian M. Pegram of Alexandria, reappointed for a second three-year term

Barry R. Green, Director of the Department of Juvenile Justice, reappointed for a second three-year term

Public Comment

None

Minutes

The minutes of the January 10, 2006, meeting of the Council were approved as distributed.

In addition, draft minutes appear on the Internet as soon as possible but not later than ten working days following the meeting in accordance with § 2.2-3707.1 of the Code of Virginia. Final approved minutes are posted within three working days of final approval. Commonwealth Competition Council minutes are being posted in accordance with the above to the Council web page at <http://www.egovcompetition.com>.

Annual Report on State Job Elimination due to Privatization

Mrs. Robertson advised the Council that in accordance with § 2.2-203.2:1 of the Code of Virginia, the Secretary of Administration is to report to the Governor and the General Assembly on the number of state jobs eliminated in the immediately preceding fiscal year due to the privatization of commercial activities to a commercial source. That report is due annually on or before November 30 of each year.

The Department of Human Resource Management is gathering this information, and thus far has reported the following:

Virginia Port Authority	5 positions
Department of Health	1 position
<u>Department of Corrections</u>	<u>7 positions</u>
Interim Total	13 positions

She also stated that the large number of positions eliminated in the Virginia Information Technology Agency due to the public-private partnership between the Commonwealth and Northrop Grumman on the information technology infrastructure will not be reported until November 30, 2007, inasmuch as these positions were not eliminated until the 2006-2007 fiscal year.

The Council discussed the advantages of reporting not only the positions eliminated, but the position avoidance in private positions being utilized in lieu of state employees and the fiscal savings to the Commonwealth. They expressed the opinion that this would provide more meaningful information than just the number of positions eliminated.

Update on technology public-private efforts

Mr. James T. Roberts, Director of Finance and Administration, Virginia Information Technologies Agency (VITA), updated the Council on technology public-private efforts. The handout provided is attached and made a part of the minutes.

He provided the background of this venture, beginning with its creation in 2003. Some 90 executive branch agencies and 1,075 full time equivalent (FTE) positions were phased into VITA, the new agency. The scope of the infrastructure varied with 69,323 desktops, 3,099 servers, 15,441 telecommunication switches (not telephones) and other supporting staff and equipment. The information technology partnership with Northrop Grumman agreement is valued at \$1.98 billion over 10 years, with one 3-year extension. That company will invest \$272 million in capital investments with new state-of-the-art facilities in Chesterfield and Russell

Counties. Mr. Roberts told the Council that the contract base funding will not exceed the 2005 levels across the enterprise of executive branch agencies with a less than 15% economic contingency. The Northrop Grumman services began July 1, 2006, with transitional service improvements and equipment replenishment in years 1 – 3. Thereafter it is planned to replace equipment every four years. Data security is of paramount importance and is being given the highest level of attention.

Mr. Roberts specifically mentioned that the state employees were treated well, with 849 VITA employees receiving offer letters from Northrop Grumman. Of this, 66.7% (566 employees) accepted that offer. He said 245 FTE remain “managed” state employees. During this offer period, an additional 38 positions became vacant.

His handout reflected what the transformation means for state agencies, local governments, taxpayers, and for businesses. Some of the highlights of this included improved 21st century IT services at today’s costs, improved security of state assets, improved disaster recovery, consistent technology innovation, etc. For taxpayers, this translates to improved security of information, expanded, improved and simpler government services, no additional taxpayer dollars, economic development and new jobs.

The Council was told that the IT Board and the Chief Information Officer of the Commonwealth (Lemuel Stewart) will work with Northrop Grumman to define what the proper technology is for the state.

Update on three cost efficiency/effectiveness initiatives of last administration

Mr. Joseph F. Damico, Deputy Director for the Department of General Services (DGS), updated the Council on the three cost efficiency/effectiveness initiatives of the last administration identified in the 2005 commercial activities inventory. The three were fleet operations and maintenance, seat of government mail operations and services, and real estate operations and services. The handout material is attached and made a part of the minutes. The required reports to meet the requirements of the Competitive Government Act of 2005 are due by no later than October 1, 2007.

Fleet Management Services

DGS purchased and maintains approximately 6,000 vehicles which form the centralized fleet. Of this approximately 5,800 are permanently assigned to agencies, leaving approximately 200 vehicles available to state employees on a temporary basis. As background, Mr. Damico told the Council of prior studies on fleet management. The JLARC 2004 report concluded that fleet services was unable to provide accurate vehicle maintenance cost data and that the Commonwealth should consider outsourcing vehicle maintenance. The Auditor of Public Accounts (APA) issued a 2004 report that reflected most agencies do not have adequate policies and procedures or adequately track and record vehicle purchase, assignment, use and maintenance. The recommendation in the APA report was to amend current policies and procedures and to change the existing central process. Executive Order 89 (2005) was issued by Governor Mark R. Warner establishing policies and procedures for the purchase, assignment, use and maintenance of state-owned vehicles. The Director of General Services was directed to develop a consistent, efficient and cost-effective fleet management program for all vehicles owned by the Commonwealth.

Fleet Management Services is re-engineering its operation and services in two phases: Phase 1 (Fall 2005 – Fall 2007) includes three statewide functions, vehicle maintenance services (to prove the concept on centralized fleet), short-term vehicle rentals, and fuel management. Mr. Damico stated that the state purchases approximately 1.4 million gallons of gas annually. Phase 2 (Fall 2006 – Fall 2007) covers three statewide functions: vehicle planning, deployment and disposal; safety program; and vehicle maintenance services (roll out to other agencies and institutions).

In response to a request for proposal issued to private sector maintenance providers to implement “best practice” vehicle maintenance management model, a contract was awarded in the summer of 2005 to TECOM, Inc., now All Star, Inc. The vendor operates the Vehicle Maintenance Control Center (VMCC) which includes a state-of-the art fleet information management system, a network of over 400 private maintenance facilities, 77 state shops in the network including fleet management and VDOT shops, and round-the-clock on-call service with a toll free number. The first year performance data reflects the following:

<u>Services</u>	<u>Before VMCC</u>	<u>After VMCC</u>
Vehicle preventive maintenance	\$ 44.71	\$30.00
Brake service average cost	\$228.00	\$83.00
Vehicle repair downtime	Significant	0-1 and >2

Phase 1 deals with statewide short-term vehicle rentals, with a contract issued to Enterprise Rental Car Company with 240 locations across the Commonwealth, delivery of vehicles to employees, and \$27/day for compact vehicles – standardized pricing and more cost efficient for travel over 80 miles per day. Statewide fuel management reflected over 390 state-owned fuel sites and privately-owned fuel sites. Mr. Damico reported that the state consumes 1.4 million gallons of gas annually. A contract with Mansfield Oil provides a credit card, fuel at wholesale prices plus a management fee, data of fuel consumption, etc. The example given was fuel purchased before the Mansfield contract was \$1.68/gallon; under Mansfield it was \$1.63/gallon.

Phase 2 deals with statewide vehicle planning, deployment and disposal. Services currently being developed include assisting agencies to develop appropriate vehicle specifications to meet mission requirements, life-cycle cost approach to vehicle acquisition, vehicle commissioning services, utilization monitoring and statistical reporting, and vehicle decommissioning and disposal preparation through surplus property procedures.

Phase 2 also deals with statewide safety program. There is no safety program in place at this time except for Juvenile Justice and State Police. It is anticipated that Fleet Management will partner with the Division of Risk Management to develop a comprehensive statewide fleet safety and driver training program, and develop an appropriate driver monitoring program and guidelines for agencies to follow when qualifying employees to operate state-owned vehicles.

State Mail Services

Executive Directive 3 was issued by Governor Warner in May 2004 to improve mail services at the seat of government to promote greater business efficiencies. It was felt that security and safety issues set forth a more compelling reason to re-evaluate how mail is received, screened and distributed. Subsequently DGS contracted with consultants having expertise in mail operations to study mail operations performed by agencies located at the seat of government. The consultants focused on mail security and cost efficiencies from consolidation of similar mail functions. The findings were personal and physical security of the mail distribution system at the seat of government were totally fragmented and minimally effective. State agencies with large mail operations were performing at a high level of production and efficiency and could serve as models for best practices. Consolidation of mail operation processes of most of the smaller agencies located at the seat of government would reduce cost and provide many operational efficiencies. It was recommended by the consultant that an executive leadership committee be formed to provide support for planning and implementation of consolidated mail functions.

DGS was directed by the 2006 Appropriation Act to develop, implement, and administer a consolidated mail function for inbound and outbound mail for agencies in the Richmond metropolitan area. A grant was received by Homeland Security to relocate the DGS centralized mail center and to purchase mail screening equipment. A state mail services manager was hired, and among other things deployed additional X-ray machines to

selected large agencies. The transition of small agencies into consolidated mail operations will be completed by June 2007.

Real Estate Services

Mr. Damico reported that the Commonwealth owns 360,000 acres of land in over 1,000 locations, 13,000 owned buildings comprising 117 million sq. ft. of space, 1,400 leases comprising 16 million sq. ft. at \$145 million in annual rent. He said 7 million sq. ft. of leased office space is targeted for highest potential for savings, and that there is an annual transaction volume of 400-500 leases, easements, purchases, and sales.

The 2002 Wilder Commission contained real estate recommendations. That report identified that an enterprise-wide review of real estate operations for cost savings could result in increased efficiencies and savings potential of \$30-\$60 million. DGS contracted with a consulting firm, CB Richard Ellis Consulting, for assessment and operational review of the state's real estate processes.

In June 2004 Executive Order 75 was issued by Governor Warner to establish a unified and fully integrated real estate portfolio management system. DGS created a Division of Real Estate Services in January 2005 to provide among other things strategic portfolio management, request for proposal drafting, space programming, financial modeling, lease negotiation, lease drafting, to serve as an advocate in the approval process, real estate information systems, and surplus real property disposal. This new division is supported by private sector partners. Results through July 2006 reflect total cost savings/cost avoidance of \$20.1 million on 842,000 sq. ft. of lease transactions with a total lease value of \$ 107.1 million. This resulted in a savings/cost avoidance rate of 18.8% to be realized over approximately 6.5 years. Further, Mr. Damico reported the sale of 25 surplus properties completed with total proceeds of \$14.2 million.

Outsourcing Surplus Property Auctions

At the last meeting of the Competition Council, one of the ideas proposed was the privatization of the sale and auction of heavy equipment (such as VDOT equipment). Mr. Damico was invited to bring the Council up to date on the actions taken since the last meeting of the Competition Council.

He said that DGS was interested in contracting services to augment its surplus vehicles and equipment sales program. That agency seeks to minimize the considerable work associated with these sales, minimize long-term storage and security of surplus vehicles and equipment while awaiting the sales, and explore opportunities that will increase sales revenues by reducing depreciation and holding costs and by increasing opportunities. In the scope of work the vendor will respond to agency and institution locations across the state, remove vehicle/equipment from the owning agency location, transport and store in a secure location, maintain, improve or otherwise enhance vehicle/equipment appearance, performance, or other material details to increase the value and subsequent sale price of the item; market the items so as to maximize revenue potential, and provide real-time, on-line auction, statistical and inventory data.

The schedule for this outsourcing results in vendor selection in November 2006, contract awarded in December, and vendor services to begin in early 2007.

Update on transportation maintenance public-private efforts and Public Private Transportation Act (PPTA) projects

Mr. Dusty Holcombe, Assistant Director, Innovative Project Delivery Division, Virginia Department of Transportation (VDOT), provided an update on the transportation maintenance public-private efforts and the PPTA projects. The materials presented are attached and made a part of the minutes.

There have been 53 public-private partnership proposals with 11 agreements valued at \$8.7 billion, including the Dulles Rail Project). One of the handouts dated October 4, 2006, listed the projects from the beginning to date. The agency has solicited proposals for two projects (reconstruction of I-81 and Route 460 from Hampton Roads to I-295 in the Richmond region). Eight proposals are currently active with a construction value of more than \$11 billion. A majority of these propose new toll facilities and one would use existing coal reserves to offset construction costs. Early proposals had a 30-day competition period. Mr. Holcombe said that the current VDOT policy is a minimum 90-day period and 120-day period for Federal oversight projects. VDOT maintains a balance between competitive environment and transparent environment. When asked why the proposals for the 460 project were twice as high as the estimate, Mr. Holcombe said that there were environmental issues and different items within the proposals.

Mr. Holcombe advised that 77% of all Interstate maintenance is outsourced. The goal is to have 100% Interstate maintenance outsourced by 2009. He said that VDOT is outsourcing 45% of primary and secondary roadway maintenance including all pavement resurfacing. All rest area property management is outsourced.

It was suggested that at the next meeting there be a discussion of the services available at the rest areas to see if there could be additional services to travelers, tourists, etc. Because the right-of-ways for the rest areas were purchased with federal funds, the federal government will not permit privatization of the entire area.

Next meeting

The Council will be polled for the next meeting in November or December, 2006.

Peggy R. Robertson
Department of Planning and Budget